

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-06 EA-07 IO-13 ISO-00 CIAE-00 DODE-00

PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01

SP-02 SS-15 USIA-06 EB-07 COME-00 OMB-01 TRSE-00 /093 W

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R 051905Z OCT 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1281

INFO AMEMBASSY BRASILIA

AMEMBASSY TOKYO

AMEMBASSY WARSAW

USDEL MTN GENEVA

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POUCHED ALL CONSULATES IN CANADA

E.O. 11652: N/A

TAGS: EAIR, EIND, CA

SUBJ: AEROSPACE INDUSTRY -- GOC POLICY DEVELOPMENTS

REGARDING THE GENERAL AVIATION SECTOR

REF: STATE 225065, PARA 7

1. BEGIN SUMMARY. THE GOC (OR AT LEAST THE DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE -- ITC -- WHICH HAS PRIMARY RESPONSIBILITY) APPEARS ON THE VERGE OF A NEW INITIATIVE TO DEVELOP THE GENERAL AVIATION MANUFACTURING INDUSTRY IN CANADA. THIS WILL INVOLVE FINANCIAL INCENTIVES TO AT LEAST ONE CANADIAN FIRM AND MAY RESULT IN NEW PRESSURES AGAINST U.S. MANUFACTURERS TO PRODUCE IN CANADA COUPLED WITH RESTRICTIONS ON IMPORTATION OF CERTAIN AIRCRAFT TYPES. THIS INFORMATION IS BASED ON DISCUSSIONS WHICH TOOK PLACE SEPTEMBER 16-18 DURING THE ANNUAL MEETING OF THE AIR INDUSTRIES ASSOCIATION OF CANADA (AIAC) AT ST. ANDREWS-BY-THE-SEA, NEW

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BRUNSWICK, WHICH EMBASSY TCO ATTENDED. WHILE THE LIKELY

OUTCOME OF THIS EFFORT IS NOT PRESENTLY CLEAR, THE EMBASSY RECOMMENDS USG CONSULTATIONS WITH U.S. GENERAL AVIATION MANUFACTURING INDUSTRY AND WITH THE HELICOPTER INDUSTRY TO ASSESS THE SITUATION AND DEVELOP A STRATEGY. END SUMMARY.

2. A WARNING TO THE UNITED STATES GENERAL AVIATION INDUSTRY TO COMMENCE CANADIAN MANUFACTURING OR RISK IMPORT RESTRICTIONS WAS MADE AT THE AIAC GENERAL AVIATION COMMITTEE SESSION (ATTENDED BY ABOUT TWENTY PERSONS) BY JOESPH L. HARRISON, (CHIEF OF THE AIRCRAFT DIVISION, AEROSPACE SYSTEMS DIRECTORATE, TRANSPORTATION INDUSTRIES BRANCH, DEPARTMENT OF INDUSTRY, TRADE AND COMMERCE). HARRISON TOOK THE FLOOR ON THAT OCCASION TO PUBLICLY ADDRESS EMBASSY TCO AND ASK HIM TO DELIVER A MESSAGE TO THE UNITED STATES MANUFACTUREERS. HE STATED THAT THE CANADIAN GOVERNMENT WAS EXTREMELY DISAPPOINTED THAT THESE FIRMS, WHICH ENJOY A LARGE EXPORT VOLUME TO CANADA, HAD BEEN UNWILLING TO ESTABLISH PRODUCTION FACILITIES HERE. SHOULD THEY NOT DO SO VOLUNTARILY THE CANADIAN GOVERNMENT,HE SAID, MAY BE DRIVEN TO FOLLOW THE BRAZILIAN MODEL OF ERECTING IMPORT BARRIERS AS A MEANS OF DEVELOPING LOCAL PRODUCTION. HE DID NOT SPECIFY WHAT BARRIERS MIGHT BE UNDER CONSIDERATION.

3. IN RESPONSE TO TCO'S QUESTION REGARDING GOC CONTACT WITH THE U.S. MANUFACTURERS, HARRISON ALLUDED GENERALLY TO VARIOUS OVERTURES FROM CANADIAN OFFICIALS TO CESSNA, BEECHCRAFT, PIPER AND OTHER U.S. FIRMS WHICH, HE SUGGESTED, HAD DRAWN NEGATIVE RESPONSES. HE ALSO REFERRED TO AN INVITATION EXTENDED IN THE PAST FEW YEARS TO THE U.S. AIR INDUSTRIES ASSOCIATION TO HOLD ITS ANNUAL MEETING IN CANADA WITH A VIEW TO PROVIDING A SETTING AT WHICH THIS GOC OBJECTIVE MIGHT BE FURTHER DISCUSSED, BUT SAID THAT THE AIA LEADERSHIP HAD REJECTED THE INVITATION. WHEN ASKED WHETHER, SINCE THIS APPEARED TO BE A MATTER OF SOME CONCERN TO THE GOC, ANY THOUGHT WAS BEING GIVEN TO DISCUSSING THE ISSUE WITH THE USG, HARRISON STRONGLY REPLIED THAT THE U.S. AVIATION INDUSTRY WAS BASED ON FREE ENTERPRISE AND THAT HE SAW NO NEED UNDER SUCH CIRCUMSTANCES TO DEAL WITH THE USG. THE EMBASSY REPRESENTATIVE DID NOT ENGAGE IN FURTHER PUBLIC DISCUSSION

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4. HOWEVER, HARRISON'S REMARKS WERE WARMLY ENDORSED BY SEVERAL BUSINESS EXECUTIVES ATTENDING SESSION WHO FELT THAT CANADIAN PRODUCTION (SUPPORTED GOC FINANCIAL INCENTIVES) SHOULD BE QUITE ATTRACTIVE TO THE U.S. FIRMS IF THEY CONSIDERED THE PROPOSITION SERIOUSLY. ONE EXECUTIVE EXPRESSED THE VIEW THAT AMONG POSSIBLE CANDIDATES FOR PRO-

DUCTION IN CANADA WOULD BE LOW VOLUME OLDER AIRCRAFT (SUCH AS THE CESSNA 180) WHERE THE COSTS OF MAINTAINING U.S. PRODUCTION LINES MAY BE RELATIVELY HIGH. WITH ITC FINANCIAL SUPPORT, HE WENT ON, THE PRODUCTION OF SUCH AIRCRAFT AND RELATED SPARE PARTS IN CANADA WOULD BE QUITE POSSIBLE AND SHOULD BE ATTRACTIVE. ANOTHER PARTICIPANT THEN COMMENTED THAT EMPHASIS SHOULD ALSO BE PUT ON SECURING ARRANGEMENTS FOR PARTS PRODUCTION EVEN FOR MODELS WHICH MIGHT NOT BE BUILT IN CANADA AS THIS IN ITSELF WOULD BE QUITE PROFITABLE GIVEN THE LARGE NUMBERS OF AIRCRAFT MODELS ALREADY REGISTERED IN THE COUNTRY.

5. HARRISON AGREED WITH THESE REMARKS AND INDICATED ITC'S INTEREST IN FUNDING WELL CONCEIVED PROJECTS. HE WENT ON TO ASSERT THAT CANADA SHOULD BUILD ITS OWN AGRICULTURAL AIRCRAFT, A MARKET FOR WHICH WOULD EXIST IN THE CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA) AID PROGRAMS IN THIRD WORLD COUNTRIES. CIDA HAS ALREADY DETERMINED THAT SUPPLY OF AGRICULTURAL AIRCRAFT WOULD BE A VERY USEFUL SUPPORT TO ITS OTHER ASSISTANCE EFFORTS, BUT HAS NOT INVOLVED ITSELF IN THIS BECAUSE NO CANADIAN BUILT AIRCRAFT WAS AVAILABLE. GURMMAN, HE WENT ON, PRESENTLY MANUFACTURES IN THE U.S. SUCH AN AIRCRAFT WHICH DOES NOT FIT WELL INTO THE FIRM'S MORE GENERAL PRODUCT LINE AND MIGHT BECOME A CANDIDATE FOR CANADIAN PRODUCTION. HARRISON ALSO ALLUDED TO THE EXPRESSED INTEREST BY FUJI OF JAPAN IN AUTHORIZING AND PARTLY FINANCING PRODUCTION OF ITS SMALL AIRCRAFT (TYPES NOT SPECIFIED) IN CANADA AS WELL AS TO DISCUSSIONS UNDERWAY WITH POLAND FOR THE CANADIAN MANUFACTURE OF SOME OF ITS AGRICULTURAL AIRCRAFT AS A TRADE OFF IN CONNECTION WITH POSSIBLE POLISH PURCHASES OF THE DE HAVILLAND DASH-7. THE BASIC PROBLEM WITH ALL OF THESE OPPORTUNITIES, HE CONCLUDED, WAS THE PRESENT LACK OF MANUFACTURING PLANT WITHIN CANADA FOR SUCH AN UNDERTAKING. HE LIMITED OFFICIAL USE

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EXCLUDED CANADAIR AS WELL AS DE HAVILLAND AS UNSUITABLE FOR SUCH WORK AND THEIR EXECUTIVES PRESENT DID NOT DISSENT. HOWEVER, IF AND WHEN THE TRIGULL (SEE BELOW) GOES INTO PRODUCTION, HARRISON OBSERVED, A PLANT WILL HAVE TO BE BUILT WHICH, IN TURN, WILL REQUIRE OTHER BUSINESS TO BE PROFITABLE.

6. REPRESENTATIVES OF SEVERAL FIRMS AT SESSION GAVE BRIEF STATUS REPORTS ON THEIR CURRENT ACTIVITIES. NO REPRESENTATIVE OF BANKRUPT SAUNDERS AIRCRAFT OF WINNIPEG WAS PRESENT. (SEE OTTAWA A-484, SEPT 13, 1976 AND USDAO OTTAWA IR 6 815 0113 76, 10 JUNE 1976 FOR OUR LATEST REPORTS ON THAT FIRM.) CANADAIR NOTED THAT THERE IS A CONTINUING MARKET FOR AND SMALL SCALE PRODUCTION OF THE C1-215 (WATER BOMBER USED IN FOREST FIRE FIGHTING). DEJ

HAVILLAND REPORTED THAT TWIN OTTER PRODUCTION IS CONTINUING AT A RATE OF 4-5 PER MONTH AND THAT MANY NEW CUSTOMERS ARE APPEARING ON THE HORIZON. ULTIMATE PRODUCTION OF THE TWIN OTTER MAY WELL TOTAL 1,000 AIRCRAFT AS THE COMPLEX CERTIFICATION PROCEDURES (UNDER U.S. 25 FAR (23) FOR NEW 15-20 PASSENGER AIRCRAFT) MAKE IT UNLIKELY THAT NEW DESIGNS WILL BE DEVELOPED, THUS ASSURING A CONTINUED MARKET FOR EXISTING SMALLER PLANES. TRIDENT OF VANCOUVE SAID THAT THE TRIGULL PROJECT (INVOLVING A 4-6 PASSENGER AMPHIBIAN) IS COMING ALONG WELL AND CERTIFICATION IS EXPECTED BY DECEMBER 1976, AFTER WHICH DATE PRODUCTION FACILITIES WILL NEED TO BE ACQUIRED. A TOTAL INVESTMENT OF ABOUT \$4 MILLION WILL BE INVOLVED; ABOUT \$2 MILLION IN GOC SEED MONEY SHOULD ATTRACT PRIVATE CAPITAL FOR THE BALANCE.

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7. HARRISON COMMENTED ON THIS LAST POINT THAT THE MARKET FOR THE TRIGULL AIRCRAFT -- IN BOTH THE U.S. AND WORLDWIDE -- LOOKED GOOD AND, IN HIS VIEW, THE GOC WAS PROBABLY WILLING TO TAKE A CHANCE ON FINANCING PRODUCTION. HOWEVER, HE WARNED THAT IF THE VENTURE

FAILED THIS MAY BE THE LAST OCCASION IN WHICH THE GOC WILL GAMBLE WITH NEW AIRCRAFT PRODUCTION. THE ENTIRE CANADIAN AEROSPACE INDUSTRY, HE SAID, WILL NEED TO SUPPORT TRIDENT AIRCRAFT LTD. TO A MAXIMUM EXTENT BY PROVIDING IT WITH SUBCONTRACTS ON OTHER PROJECTS, WITH A VIEW TO MAINTAINING A TOTAL MOMENTUM WHICH WILL ENCOURAGE THE GOVERNMENT IN LATER YEARS TO CONTINUE FUNDING NEW CANADIAN DESIGNS. THE GOC WILL, OF COURSE, DO ITS PART TO SECURE OTHER BUSINESS (UNDOUBTEDLY A REFERENCE TO THE AGRICULTURAL AND OTHER AIRCRAFT VENTURES MENTIONED ABOVE) FOR THE EXPANDED FIRM IF AND WHEN THE DECISION TO FINANCE THE TRIGULL IS MADE.

8. COMMENT: TWO YEARS AGO (OTTAWA A332, JULY 17, 1974, PG. 6)
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EMBASSY REPORTED THAT DAVID MUNDY (PRESIDENT OF THE AIAC) WAS THEN STRESSING POSSIBLE GOC RESTRICTIONS ON IMPORTS OF U.S. GENERAL AVIATION AIRCRAFT TO STIMULATE CANADIAN PRODUCTION AND THUS REALIZE THE OBJECTIVE OF MAINTAINING AN AIRCRAFT INDUSTRY IN CANADA. OUR SUBSEQUENT CONVERSATIONS WITH GOVERNMENT OFFICIALS OVER THE NEXT EIGHTEEN MONTHS DID NOT REVEAL THAT THIS WAS AN OPTION UNDER ACTIVE CONSIDERATION, ALTHOUGH IN GENERAL TERMS THEY REGRETTED THE UNWILLINGNESS OF U.S. GENERAL AVIATION AND HELICOPTER MANUFACTURERS TO EXTEND THEIR PRODUCTION LINES TO CANADA. HOWEVER, TO THE EXTENT THAT HARRISON'S REMARKS ADEQUATELY REFLECT ITS THINKING IT WOULD APPEAR THAT THE RESTRICTIVE APPROACH (SYMBOLIZED BY THE BRAZILIAN MODEL) MAY NOW BE FINDING FAVOR. ITS ADOPTION, HOWEVER, IS NOT A FOREGONE CONCLUSION. THE USERS OF GENERAL AVIATION AIRCRAFT IN CANADA (SMALL CARRIERS, BUSINESS FIRMS, AND INDIVIDUAL OWNER PILOTS) ARE A SIZEABLE CONSTITUENCY. THEY ARE THE DOMINANT ELEMENT (NUMERICALLY) IN THE AIR TRANSPORT ASSOCIATION OF CANADA AS WELL AS IN THE CANADIAN OWNERS AND PILOTS ASSOCIATION AND MAY BE EXPECTED TO FIGHT BITTERLY ANY EFFORTS TO RESTRICT THEIR MARKET CHOICE. THEY ARE WELL AWARE OF THE HIGHER COSTS TO THEM WHICH WILL BE ASSOCIATED WITH CANADIAN PRODUCTION AND TREASURE THEIR ABILITY TO DEAL FREELY WITH U.S. MANUFACTURERS. HISTORICALLY THE MINISTRY OF TRANSPORT MIGHT BE EXPECTED TO SUPPORT THE AIRCRAFT USERS BUT THIS POLICY MAY BE UNDER REVISION AS WELL. THE LIKELY OUTCOME ON THIS ISSUE IS THUS FAR FROM CLEAR.

9. RECOMMENDATION: STATE AND COMMERCE HAVE BEEN MEETING PERIODICALLY WITH U.S. MANUFACTURERS OF LARGE COMMERCIAL AIRCRAFT TO ASSESS THE SIGNIFICANCE OF CANADIAN OFFSET AND OTHER POLICIES ON THEIR BUSINESS. EMBASSY RECOMMENDS THAT SIMILAR CONSULTATIONS BE INITIATED WITH THE GENERAL AVIATION MANUFACTURERS TO OBTAIN THEIR

ASSESSMENT OF THE CANADIAN SITUATION AND, IF APPROPRIATE,
TO DEVELOP A USG-INDUSTRY JOINT STRATEGY FOR DEALING WITH
PRESSURES FROM THE GOC.

10. ACTION REQUESTED: PLEASE SEND EMBASSY A SUMMARY OF THE
GOB AIRCRAFT IMPORT RESTRICTIONS AND, IF AVAILABLE, AN
ASSESSMENT OF BRAZIL'S AIRCRAFT MANUFACTURING INDUSTRY.
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Message Attributes

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